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G-5 Finance Ministers Back Lower Interest Rates

Although the finance ministers of the five leading industrialized nations agreed they would like to see interest rates decline, they stopped short of launching a coordinated international effort to achieve that goal at the Group of Five meeting in London January 18-19. A U.S. Treasury official said that the central banks in the G-5 -- the United States, West Germany, Japan, Britain and France -- would "maintain close contact" on the issue.

On the table was Prime Minister Yasuhiro Nakasone's proposal for a coordinated effort to lower interest rates. The proposal, which was endorsed by France, became a subject of controversy prior to the meeting when the United States denied a West German official's statement that Washington would push for an agreement on lower interest rates. With inflation expected to remain under

Mr. Olmer went on to say that unfair trading practices make up only a marginal portion of the U.S. trade deficit; rather, a variety of factors, including the high value of the dollar and the loss of markets in the debt-ridden developing world, are to blame. A "mix of solutions," as proposed by the administration's trade policy, seems the "right tack," according to the former Commerce official.

He indicated, however, that questions remain about whether the administration's approach will be enough to turn around the deficit -- or even if U.S. trading partners will cooperate with the plans to do so. The consequences of such a failure would be profound, Mr. Olmer warned, stating that "American industry will find itself in a hole so deep that subsequent government intervention to salvage its baldy damaged remnants may take the form of highly protectionist (and politically irresistible) trade legislation. And this would be neither in America's interests nor the world's."

Although he also applauded the policy initiatives taken by the Reagan administration last fall, trade commentator Kevin Phillips outlined in detail further steps to be taken to energize a policy he described as lacking "orderly strategizing." According to Mr. Phillips, if the United States is to be competitive, the administration will have to reconcile playing an active role in economic matters as well as pursue consistent, "high-level strategic coordination of U.S. economic policies." It must also enact a sweeping "competitiveness agenda" of economic reforms that coordinates domestic and international policies, he said, and overhaul the tax system with a value-added tax on imports.

Howard Samuel of the AFL-CIO agreed on the need for an industrial strategy or a "competitiveness framework" and urged that the United States "abandon Adam Smith and adopt Clausewitz' On War" regarding international competition. Raymond Vernon of the Harvard Business School voiced his concern that government and business leaders discussing competitiveness questions fail to consider the implications of growing multinational business activities. Discussions of the benefits and drawbacks of a value-added tax and the scope of structural adjustment programs closed out the session, with indications from the panelists that the debate over the agenda for action, despite the acknowledged air of crisis, is only in its preliminary stages.

Sheri Horeman

Japan's Car Export Limits: The Guessing Game Starts Again

The fifth year of restraints on shipments of Japanese-made cars to the United States still has more than two months to run, but trans-Pacific sparring over the future of the export limits is already in full swing. The current version of what has become an annual ritual started in mid-December when an unidentified Ministry of International Trade and Industry spokesman was widely quoted as telling a Japanese press briefing that Tokyo intended to allow the restrictions on U.S.-bound car exports to expire as planned March 31. Government officials ranging from Prime Minister Yasuhiro Nakasone to the number-two man in MITI's automotive division tried to shoot down this prematurely launched

trial balloon, maintaining that no decision had been reached on the quota issue. Their efforts were fruitless. Thirteen auto-state senators fired off letters to the prime minister and new MITI Minister Michio Watanabe warning that an end to the restraints would "further exacerbate our already tenuous trade relationship." Ford Motor Co. and Chrysler Corp. also weighed in with a predictable blast.

While the political fallout in Washington from the huge bilateral trade imbalance might once again dictate another year of limits on Japanese car exports, the economic rationale for continued restraints is missing. U.S. sales of domestic nameplates expanded in 1985 for the third straight year and topped the 8 million mark for the first time since 1979. Sales of Japanese-made cars admittedly increased by a bigger margin as a hike in the shipment ceiling from 1.85 million units in the twelve months through March 1985 to 2.3 million vehicles in the current restraint period helped erase a small 1984 decline, but the 20.1 percent market share captured by Japanese makes last year was still below the 1980-83 level (see accompanying table).

The financial news out of Detroit bolsters the argument that there is no longer any economic justification for continued restraints on Japan's car shipments to this country. Over the last three years the U.S. Big Three auto manufacturers have chalked up record or near-record profits, with 1985 earnings the second best on the books. More importantly, General Motors Corp., Ford and Chrysler are all pushing ahead with aggressive product development and capital investment programs designed to strengthen their competitiveness, particularly in small cars, while at the same time fighting to bring labor costs under better control.

Proponents of an end to Tokyo's export restrictions can also argue that 1986 is a good time to lift the restraints because changing conditions in the American automotive market are expected to put a lid on sales of Japanese-made cars. U.S. auto industry executives and analysts alike are predicting a drop this year in domestic demand for new cars. By itself, this downturn should limit import sales. In addition, though, Japanese suppliers have lost some of their price edge in the American market. The run-up in the yen's value since September has forced Toyota Motor Corp., Nissan Motor Co., Ltd. and Honda Motor Co., Ltd. to raise U.S. sticker prices by 3 to 4 percent on top of somewhat smaller increases at introduction time last fall. With the U.S. Big Three using cut-rate financing and rebates to move cars, the price differential between Japanese and American models has already shrunk, and it could narrow more this spring if the yen stays strong.

Weaker U.S. demand and higher Japanese sticker prices will make it hard for Japan's car manufacturers to expand U.S. sales this year beyond 1985's 2.2 million-plus tally. What could make it impossible is the arrival of other foreign competitors in the market's low end. Sales of the little subcompact brought in from Yugoslavia got off to a brisk start late last year, and Korea's Hyundai Motor Co. has pegged first-year sales of its Excel subcompact, slated for U.S. marketing in mid-February, at 100,000 units.

Susan MacKnight

U.S. Retail Sales of Imported Japanese Cars, 1980-85

(units)

Manufacturer/Seller	1980	1981	1982	1983	1984	1985
Toyota Motor Corp.	582,204	576,491	530,246	555,766	557,981	620,047
Nissan Motor Co., Ltd.	516,890	464,805	470,246	521,902	485,298	535,372
Honda Motor Co., Ltd.	375,388	370,705	365,865	350,670	374,819	406,413
Mazda Motor Corp.	161,623	166,105	163,638	173,388	169,666	211,093
Fuji Heavy Industries, Ltd. (Subaru)	142,968	152,062	150,335	156,840	157,385	178,175
Mitsubishi Motors Corp.	0	0	3,950	32,755	39,104	49,734
Isuzu Motors, Ltd.	0	17,805	15,462	20,731	17,233	26,953
Mitsubishi Motors Corp./Chrysler Corp.	129,350	110,940	102,227	103,569	91,718	105,213
Isuzu Motors, Ltd./General Motors Corp.	0	0	0	0	2,077	53,968
Suzuki Motor Co., Ltd./General Motors Corp.	0	0	0	0	10,927	30,892
Total Japanese Imports	1,908,423	1,858,913	1,801,969	1,915,621	1,906,208	2,217,860
Total Imports	2,396,934	2,326,376	2,221,398	2,382,799	2,439,848	2,838,116
Total Domestic Makes	6,578,275	6,206,296	5,756,660	6,795,302	7,951,517	8,204,542
Japan's Market Share	21.3%	21.8%	22.6%	20.9%	18.3%	20.1%

Source: Automotive News